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SUBJECT: SCENE SETTER FOR THE AGOA FORUM-JULY 18-19, 2007

¶1. (U) Summary: On March 6, Ghana celebrated its fiftieth anniversary as sub-Saharan Africa's first independent country. Ghana has emerged from a turbulent history into a period of stability, democracy and sustained economic growth. Ghana and the United States have enjoyed strong, positive ties for the past decade that are now at an all-time high. Ghana is a reliable, democratic partner for the United States in peacekeeping, conflict resolution, counter-terrorism, and economic development. U.S. interests center on support for Ghana's fifteen-year-old democracy, the promotion of open markets and poverty reduction, security cooperation, and enhanced people-to-people ties. Our bilateral relationships will be increasingly important in light of Ghana's growing global leadership position. Despite its many successes, Ghana still struggles with persistent poverty, political divisiveness, corruption, and governance and security challenges. This document will give you an overview of the history of Ghana, including its political and economic situation. It will also discuss Ghana's international leadership position and what to expect for the upcoming AGOA Forum. End Summary.

Historical Context

¶2. (U) Nkrumah as President: The contributions of Ghana's first President Kwame Nkrumah were numerous. He laid the foundation of Ghana's foreign policy based on four enduring pillars: Ghana's strong commitment to multilateral organizations, its commitment to the Non-Aligned Movement, its leadership in promoting African unity, and its partnership with neighboring states.

¶3. (U) Difficult Years: Beginning in 1961, Ghana became a socialist state and its foreign policy agenda followed suit. Nkrumah was a founding member of the Non-Aligned Movement. Ghana gained a reputation for being independent-minded in foreign affairs and vocal on international issues. Although Ghana officially remained within the Non-Aligned Movement, it developed close ties to the Soviet Union, China and Cuba.

¶4. (U) Eventually, Nkrumah abolished regional assemblies, banned ethnic, religious and regional parties, and put in place the Prevention Detention Act used to imprison thousands of his opponents. By 1964, he had created a one-party state and declared himself president for life. His economic and internal security policies contributed to his ouster in a military coup in 1966, although today he is still revered by many Ghanaians.

¶5. (U) The following decades brought five military coups and numerous coup attempts, a revolution, thousands of cases of human abuses, and almost two decades of economic decline that nearly ended in financial ruin. There were also periods of serious violence, including the 1979 execution of three former heads of state, the 1982 murder of three Supreme Court judges and a retired army major, and the 1994 "Guinea Fowl" ethnic war in the north, which left an estimated 2,000 dead.

Building stability

¶16. (U) Although Nkrumah's socialist vision and lack of ethnic bias did much to unify Ghana, the credit for stabilizing Ghana goes more to former president J.J. Rawlings. Despite his autocratic style and early revolutionary tendencies, over a period of almost twenty years he led Ghana through a democratic transition, which ultimately steadied the rudder of Ghanaian politics. He strengthened grass roots organizations, empowered the judiciary, and gradually reduced the role of the military. Rawlings created a system of local government and forged a new constitution. He allowed political party competition, private media development, and competitive elections. Faced with economic disaster, in 1983 he embraced IMF-led economic reforms which helped lay the foundation for food security, improved social infrastructure and strengthened the stability of many sectors of society.

¶17. (U) In December 2000, John Agyekum Kufuor became president. He built on this stability, strengthening civil liberties and governing institutions, further opening the political space and improving the economy. In 2004, he initiated a National Reconciliation Commission, which helped move the country beyond its often-turbulent past.

Democracy in Ghana

¶18. (U) Ghana's political success today is reflected in several prominent surveys. Ghana scores well on the Freedom House Index of Political Rights, going up from a score of 2 to 1 in 2006 because of the 2004 free and fair elections and a "general maturing of electoral institutions." Ghana ranks among the best in the 2006 Fund for Peace Global Failed States Index, with only South Africa and Mauritius scoring better in Africa. (The index tracks such factors as demographic pressures, economic decline, criminalization, violation of human rights, and factionalism.) In addition, Standard and Poor and Fitch give Ghana a B-plus sovereign credit rating, which reflects an assessment of limited political and economic risk of default.

¶19. (U) Other surveys give Ghana somewhat weaker political marks. The Economist Intelligence Unit's new 2006 democracy index ranks Ghana a "hybrid regime," 95th out of 167 countries. Its overall score of 5.35 out of 10 ranks below eight other countries in sub-Saharan Africa and incorporates lower-than-average scores in the categories of "functioning government," "political participation," and "political culture." The World Bank's "Governance Matters 2006" report listed Ghana as a reformer, citing the country's progress on governance. Nonetheless, it ranked Ghana seventh in Africa on good governance, with a score of only 38 out of 100 on corruption. The 2005 NEPAD African Peer Review report on Ghana praised Ghana's democratic progress as "remarkable, albeit fragile in some respects." The review identified the problems of low governance capacity, corruption, and weak intuitions as "likely to diminish the sustainability of democratic politics."

Democracy Taking root

¶10. (U) After 15 years of democratic governance, Ghanaians are committed to democracy. Voter turnout has been high in three consecutive national, free and fair elections. The Center for Democratic Development (CDD)'s 2005 Afrobarometer survey found that since 1999 Ghanaians have overwhelming supported democratic government.

¶11. (U) Ghana has long had significant space for opposition and debate, starting with its lively multiparty competition prior to independence, and carrying on to some extent even during periods of military rule. Civilians had an important role in almost all of Ghana's military governments. While parliament has become increasingly polarized, there is still political space for the opposition, with almost half of parliament in the hands of the main opposition National Democratic Congress (NDC) party. This helps keep inter-party friction within reasonable boundaries.

¶12. (U) Civil society groups, including religious associations, are well organized. The majority of Ghana's educated elites studied in

ethnically mixed boarding schools, which helped build ethnic tolerance. There is a lively, free media, which allows people to vent frustrations and concerns.

Economics in Ghana

¶13. (U) Ghana's economy was relatively stable and prosperous at independence, but fell into steady decline starting in the mid-1960s as a result of political infighting, economic mismanagement and a collapse in cocoa prices. Per capita GDP fell by 24 percent from 1970 to 1981, when inflation reached 116 percent. By 1983, the economy was on the brink of collapse. With IMF and World Bank support, Rawlings implemented significant reforms, including removing trade barriers and exchange rate controls. While the reforms caused substantial hardship in some sectors, particularly agriculture and textiles, the overall effect was positive and helped bring about a measure of economic stabilization and recovery. However, a big drop in world cocoa and gold prices hurt growth and, in the face of pending elections, spurred government spending, leading to an increased deficit, falling currency and high inflation at the time Kufuor took office in 2000.

¶14. (U) The economy has performed well under the Kufuor administration but Ghana's fundamental vulnerabilities remain. The Kufuor administration has continued the economic stabilization begun under Rawlings, but major debt relief, large inflows of donor resources and relatively high cocoa and gold prices have been key to the steady improvements in the real GDP growth, which in 2004 topped 5 percent for the first time in a decade and reached an estimated 6.2 percent in 2006. Further debt relief, continued large aid inflows, favorable commodity prices, and \$4 billion in gross annual remittances (note: this includes remittances from individuals as well as NGOs and embassies; individual remittances are estimated at about \$1.8 billion in 2006) put Ghana in a stronger balance of payment position than at the end of the Rawlings years.

¶15. (U) Ghana was recognized for its economic and democratic achievements in 2006, when it signed a five-year, \$547 million anti-poverty Compact with the United States Millennium Challenge Corporation. The Compact focuses on accelerated growth and poverty reduction through agriculture and rural development. The Compact has three main components: enhancing the profitability of commercial agriculture among small farmers; reducing the transportation costs affecting agricultural commerce through improvements in transportation infrastructure; and expanding basic community services and strengthening rural institutions that support agriculture and agri-business. The Compact is expected to contribute to improving the lives of one million Ghanaians.

¶16. In close coordination with other donors, USAID/Ghana supports the Government of Ghana's poverty reduction strategy by strengthening decentralized governance systems, promoting private sector competitiveness, improving health care delivery, enhancing access to quality basic education, and increasing food security. Funding levels have averaged around \$37 million per year from 2004 to 2007, plus an additional \$22.5 million in food aid.

Economic and Health Challenges

¶17. (U) While Ghana's macroeconomic management has been good, significant problems remain. Ghana is highly vulnerable to price shocks in cocoa, gold, and to a lesser extent, timber (which together account for 70 percent of exports). It remains heavily dependent on foreign inflows of aid and on remittances (which largely go into nonproductive activities, such as housing construction, but have probably helped keep the currency relatively stable).

¶18. (U) There has been little growth in the formal job sector, which accounts for as little as 20 percent of employment. Seventy percent of Ghanaian companies are micro-enterprises, with few entrepreneurs possessing the capacity or resources to expand. Financial services are growing but Ghana remains largely a cash society and access to credit is difficult, short-term and expensive. Infrastructure necessary to support growth is poor, particularly power generation and water supply. The country is currently experiencing a full-blown energy crisis with scheduled 12 hour power

outages every second day.

¶19. (U) The poverty rate has dropped to 28.5 percent in 2005/2006, down from 40 percent in 1998/99, and many social indicators have shown steady improvement over the past few decades. Nonetheless, progress has been slower than hoped. Stability and GDP growth have not yet translated into broad-based prosperity and well-being, and income inequality is growing. Per capita gross national income was \$450 in 2005 compared to an average of \$745 for low-income sub-Saharan African countries, according to the World Bank's 2007 World Development Report.

¶20. (U) Maternal and infant mortality rates are well below levels in the 1980s but remain high and have not changed in ten years. While access to education has grown, quality is a major challenge. Results from Ghana's National Education Assessment indicate that less than 15% of Ghana's youth attain proficiency in Grade 6 English, and only 5% attain proficiency in Grade 6 mathematics. GOG census data shows a slight drop in overall adult literacy from 58 percent in 1984 to 54 percent in 2000, below average for sub-Saharan Africa. Although overall hunger levels have been reduced significantly, food insecurity and malnutrition are problems in some areas, with child malnutrition levels stagnant over the past decade. Guinea worm infection has re-emerged while malaria remains endemic. In the past few years, the quality of basic social services has deteriorated.

The Dissatisfied poor

¶21. (U) Most Ghanaians reportedly do not feel they have benefited from the country's macroeconomic success, according to several recent studies. According to the Center for Democratic Development's 2005 Afrobarometer survey, 53 percent of respondents thought their standard of living had declined over the previous year, compared to 38 percent in a similar survey in 2002. Respondents in 2005 were significantly gloomier than 2002 about their economic future.

Other Challenges

¶22. (U) In his New Year's address to the nation, Kufuor noted Ghana's main challenges in 2006: high oil prices, road and boat accidents, narcotics trafficking, an increase in violent crime, and power shortages. These developments "failed to destabilize the society and economy to the extent that was feared," he concluded, crediting the openness of social discourse, efficient macroeconomic management and a gradual but steady improvement in law and order.

¶23. (U) Ghana's politics remain highly polarized between the ruling New Patriotic Party (NPP) and main opposition National Democratic Congress (NDC) party (there are also nine smaller parties). Increasingly, Ghanaian politics is focused on the presidential and parliamentary election of 2008, which is already causing significant inter- and intra-party friction. The NDC has chosen its candidate, former Vice President John Atta Mills, who is actively campaigning.

¶24. (U) The NPP has almost 20 presidential aspirants and will choose its presidential candidate in a National Convention in December 2007. President Kufuor recently asked the eight sitting ministers who are also presidential aspirants to resign. While it is unclear at this point if they will resign immediately, those who are serious about running for president will likely resign or be forced out of office in the coming months, including Foreign Minister Nana Akufo-Addo, Defense Minister Addo Kufuor and Trade and Industry Minister Alan Kyerematen.

¶25. (U) Corruption and cronyism are problems. Ghana also faces a range of security challenges, including a rise in violent street crime, a proliferation of small arms, and an increase in narcotics trafficking, including trafficking of cocaine and heroin to the United States.

U.S. - Ghana Relations

¶26. (U) U.S. - Ghana relations are excellent and broad-gauged. The U.S. Mission in Ghana is the third-largest U.S. Mission in Africa. It includes the oldest Peace Corps program in the world and our development assistance program began with Ghana's independence. The United States has strong commercial, political, military-military, and people-to-people relations with Ghana. The Embassy moved into a new \$100 million complex in June.

Internationalism: The AGOA Forum in Context

¶27. (U) Ghana is playing an increasingly significant global leadership role, as a non-permanent member of the UN Security Council, member of the Board of the International Atomic Energy Agency, active member of the Economic Community of West African States (ECOWAS) and recently selected chair of the African Union.

¶28. (U) Ghana's role as co-host of the AGOA Forum reflects this expanded international profile. The Government of Ghana took the lead to define the structure and agenda of this year's Forum. The Minister for Trade, Industry, Private Sector and President's Special Initiatives, Alan Kyerematen argued forcefully that the Forum should belong to the Africans and has been personally involved in every substantive decision related to the Forum. The agenda for the Forum is designed to produce discussion of practical benefit to AGOA-eligible countries. It is meant to: provide a realistic assessment of how AGOA has been implemented so far; look at key sectors which have been identified as of interest to Africans; and identify tools Small and Medium Sized Enterprises (SMEs) can use to overcome challenges to maximizing benefits available to them under AGOA.

¶29. (SBU) In order to foster dialogue and practical outcomes, the GoG decided the private sector and civil society would be integrated into the main forum, rather than run parallel events as has occurred in the past. Implementing the GoG vision of a unified Forum has presented coordination challenges; representatives from the private sector and civil society representatives have expressed concern that they have not been consulted or included as fully as they would have liked.

¶30. (SBU) Minister Kyerematen has been the driving force behind the African Trade Ministers consultative group and has pushed for the African regional economic communities to develop strategic AGOA implementation plans. However, at the request of President Kufuor, all ministers aspiring to run for President, including Minister Kyerematen, have submitted their resignations. Kufuor has accepted the resignations but they will not become effective until replacements are in place. We expect Kyerematen to stay on through the Forum. Nevertheless, Kyerematen's near-term resignation means he will not be able to drive follow-up; it is not clear who among the African ministers will pick up the reins.

Bridgewater